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C O N F I D E N T I A L LUSAKA 000246

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TAGS: [PGOV](#) [FAIR](#) [ZA](#)
SUBJECT: GRZ TURNING THE SCREWS ON ZAMBIAN AIRWAYS

REF: A. LUSAKA 220
[1](#)B. LUSAKA 73

Classified By: AMB DONALD BOOTH, REASON 1.4 B/D

(C) Summary and Comment. The Zambian Government (GRZ) constituted an investigations team on February 26 to probe allegations of theft, fraud, money laundering, and tax evasion by Zambian Airways (ZA) directors. These directors include the publisher of the only independent daily paper, a prosecutor on the corruption task force and a mining executive (and Humphrey Alumnus) well known to the Embassy. (Note: American investor Seaboard through its Zambian subsidiary National Milling, is also part owner of ZA.) The GRZ has convinced the public that unproven allegations against ZA directors have merit. However, the complexity of the corporate structure and the proliferation of "known unknowns" and "unknown unknowns" mean average Zambians do not understand how so much money could have been borrowed and lost. Perhaps the allegations do have merit, but it is undisputable that making an airline successful, particularly in a small market like Zambia's, during a time of high fuel prices is no small feat. The GRZ's highly principled stance on debt repayment is fraught with political overtones, given that it does not hold parastatals and other local companies to the same high standards (and itself enjoyed debt forgiveness under HIPC). The GRZ has done little to avoid the impression that ZA is being used to crush President Banda's perceived enemies within the ruling party as well as his critics outside his party (including the opposition media). It is also investigating whether any key persons at the Ministry of Finance and National Planning (including the former Minister) and at the Bank of Zambia (up to the Governor) were involved in allowing and/or supporting the problems at ZA. Or perhaps they will just be the falls guys. End Summary and Comment.

ZA raises the White Flag

[1](#)2. (SBU) Zambian Airways CEO Mutembo Nchito, who also happens to be a prosecutor for the Task Force on Corruption, announced January 10 that ZA's Board of Directors had suspended operations citing high operating costs, particularly of aviation fuel. Communications and Transport Minister, Dora Siliya, under investigation herself (Ref A), informed Parliament January 21 that the airline was USD 29 Million in debt and that the GRZ would not bail it out. The GRZ subsequently opened an investigation into whether fraud was committed by ZA or GRZ officials.

Allegations

[1](#)3. (SBU) The joint investigations team drawn from the Zambia Police, Anti-Corruption Commission (ACC), and the Drug Enforcement Commission (DEC), is probing the following allegations:

-- That Nchito used ZA as a vehicle to defraud and steal public funds by obtaining a string of loans worth millions of dollars from various financial institutions without the intentions of paying back;

-- That together with his brother, Nchima, and opposition newspaper The Post's Managing Director, Fred Mmembe,

attempted to persuade Development Bank of Zambia (DBZ), a government supported financial institution, to convert the debt owed to it by ZA as its share equity without showing how and what the loans were used for;

-- That former Minister of Finance and National Planning Ng'andu Magande, and Bank of Zambia (BOZ) Governor Dr. Caleb Fundanga allowed ZA to accumulate a huge debt, when the airline's financial records and audit reports clearly indicated that it was insolvent;

-- That Magande abused the authority of his office by dissuading and stopping statutory bodies, such as the Zambia Revenue Authority (ZRA), National Airports Corporation (NAC), and the National Pensions Scheme Authority (NAPSA) from collecting their fees, tax liabilities, and other obligations due from ZA. He is also accused of rescheduling and deferring debts that ZA owed to the statutory bodies. Magande is further accused of attempting to force the Zambia State Insurance Corporation (ZSIC) to give a loan to ZA amounting to USD 4 million. ZRA, DBZ, and ZSIC fall under the Finance Ministry, which Magande headed until President Rupiah Banda dropped him in November 2008 (after Magande challenged Banda to represent the party in the October presidential by-election);

-- That Fundanga failed to enforce BOZ's stringent financial and banking regulations and controls and allowed irresponsible lending by commercial banks who gave loans to a bankrupt ZA;

-- That DBZ CEO Dr. Abraham Mweenda obtained pecuniary advantage when he syndicated a loan facility of USD 5.5 million for ZA. Mweenda is alleged to have syndicated and guaranteed the loans that ZA obtained with Investrust Bank, Inter-market Banking Corporation, and DBZ itself;

-- That NAPSA Director General Dr. Aubrey Munyeke Chibumba invested USD 2 million into ZA;

-- That the Nchito brothers, as ZA directors, had a conflict of interest because their law firm, MNB and Associates, is BOZ's external legal representation.

GRZ Motivation

14. (C) The GRZ's motives in pursuing this case so vigorously have been questioned for several reasons:

-- President Banda and former President Frederick Chiluba are said to be close. Chiluba is facing criminal charges of corruption and abuse of office but has been invited to attend (and has attended) official state functions, a privilege he was not afforded or did not make use of during the Mwanawasa administration. A verdict in his case is expected July 20. His wife, Regina, was recently convicted and jailed for obtaining stolen goods, which she received from him when he was president. She is presently out on bail pending appeal to the High Court. Mutembo Nchito is the Task Force on Corruption (TFC) prosecutor for these, and many other, high profile cases.

-- Magande, as noted above, was President Rupiah Banda's main challenger in last year's party candidate selection. Some political observers believe that he is being targeted for political expediency, because if left unchecked, he is likely to pose a serious challenge to President Banda's leadership in party elections at next year's MMD National Convention. Per ref B, Nchito has never denied that Magande was willing to show leniency toward ZA but claims that doing so was simply nurturing a Zambian enterprise.

-- Fred Mmembe is the owner of the "The Post" newspaper, the largest circulated daily newspaper in Zambia, which supported Magande's quest for MMD party leadership and which has thrown objectivity to the wind in its vigorous anti-Banda editorial policy, even before last year's election. The paper has clearly gotten under Banda's skin,

and he has been trading public barbs with the paper for months. Mmembe's newspaper's position on Banda may have been influenced in part by Banda's decision to revoke Magande's leniency towards ZA.

-- Bank of Zambia Governor Caleb Fundanga has close connections to former First Lady Maureen Mwanawasa, who supported Magande's bid to run as the MMD's candidate in the October 2008 presidential by-election, and there are indications that Banda would like to replace Fundanga.

BOOTH